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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF  
SOUTHWESTERN ELECTRIC POWER COMPANY  
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF  
JASON M. STEGALL  
FOR  
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

3 A. My name is Jason M. Stegall, and I am Manager of Regulatory Pricing and Analysis  
4 for American Electric Power Service Corporation (AEPSC). AEPSC is a subsidiary  
5 of American Electric Power Company, Inc. (AEP). My business address is 1  
6 Riverside Plaza, Columbus, Ohio 43215.

7 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

8 A. No. I am adopting the direct testimony and discovery responses sponsored by Scott  
9 E. Mertz.

10 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
11 BACKGROUND.

12 A. I graduated from the Virginia Polytechnic Institute and State University with a  
13 Bachelor of Science degree in Accounting, in 1997. I earned my Master's in Business  
14 Administration from the Ohio State University in 2011. In addition, I attended the  
15 2018 EEI Transmission and Wholesale Markets School.

16 I joined AEPSC in June 1997 as an Accountant in the Regulated Accounting  
17 Division of the Accounting Department. From 1997 to 2009, I held various positions  
18 in Accounting and Risk Management. In July 2009, I joined the Regulatory Services  
19 Department as a Regulatory Consultant in Customer and Distribution Services  
20 Support. In July 2010, I transferred to Regulated Pricing & Analysis where my role  
21 focused on developing cost-of-service studies and rate designs as well as other  
22 projects related to regulatory issues and proceedings, individual customer requests,  
23 and general rate matters. In December 2017, I was promoted into my current position.

1 Q. WOULD YOU PLEASE DESCRIBE YOUR RESPONSIBILITIES AS MANAGER  
2 OF REGULATORY PRICING AND ANALYSIS?

3 A. I manage the team that supports the fuel-related and purchased power-related filings  
4 across AEP's eleven retail jurisdictions. In this role I regularly provide support,  
5 advice, and assistance to Commercial Operations and Fuel Procurement personnel. I  
6 also continue to perform duties related to cost-of-service and rate design.

7 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY  
8 COMMISSIONS?

9 A. Yes. I have submitted testimony on behalf of SWEPCO affiliates in Indiana,  
10 Michigan, Kentucky, and Oklahoma.

11 II. PURPOSE OF REBUTTAL TESTIMONY

12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

13 A. The purpose of my rebuttal testimony is to respond to issues raised by Sierra Club  
14 witness Devi Glick, Cities Advocating Reasonable Deregulation (CARD) witness  
15 Scott Norwood, and Texas Industrial Energy Consumers (TIEC) witness Billie  
16 LaConte.

17 Ms. Glick asserts that Welsh 1 & 3 and Flint Creek lost money in the  
18 Southwest Power Pool (SPP) Integrated Marketplace (IM) during 2015-2020. Her  
19 analysis contains significant flaws and leads to inaccurate conclusions. My analysis  
20 will show, contrary to Ms. Glick's claims, that the operation of Welsh 1 & 3 and Flint  
21 Creek produced positive market benefits for SWEPCO's customers of \$196 million  
22 from 2016-2020.

1 CARD witness Scott Norwood incorrectly argues that the Cajun contract  
2 capacity charges should be removed from base rates and should instead be included in  
3 SWEPCO's fuel reconciliation. My testimony will show that Mr. Norwood is  
4 inaccurate when he compares capacity to operating reserves, and his proposal should  
5 be denied.

6 And finally, TIEC witness Billie LaConte suggests that an imputed capacity  
7 value for SWEPCO's wind contracts should be removed from SWEPCO's fuel  
8 reconciliation and should be included in base rates. My testimony will show that the  
9 historical treatment of the wind contracts should be continued with the entire amount  
10 of the contract being included in the fuel reconciliation.

11 III. WELSH AND FLINT CREEK PRODUCED POSITIVE MARKET BENEFITS

12 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

13 A. In this section of my testimony, I respond to Ms. Glick's erroneous assertion that  
14 Welsh 1 & 3 and Flint Creek lost money in the SPP IM during 2015-2020.

15 A. SWEPCO'S GENERATING UNIT OFFERS

16 Q. HOW DOES THE COMMERCIAL OPERATIONS GROUP ENSURE THAT  
17 SWEPCO'S GENERATING UNITS ARE OFFERED INTO THE SPP IM IN A  
18 WAY THAT WILL OPTIMIZE THE AMOUNT OF NET MARKET REVENUES  
19 EARNED?

20 A. SWEPCO's generating units are offered into the SPP IM based on each unit's  
21 variable energy costs. These variable energy costs are used to create the incremental  
22 offer curves that the SPP IM uses in its economic dispatch process. Incremental costs

1 are costs that vary with the output level of the unit. Such incremental generation  
2 costs do not represent the total unit production cost but rather the marginal cost for  
3 generating the next MWh after a unit has been committed online. Optimization and  
4 economic theory dictates that fixed costs should not be included as part of the  
5 incremental costs used for unit dispatch decisions. If the cost of dispatching a  
6 generator is \$1 for the next increment of generation and the revenues created by that  
7 next increment of generation are greater than \$1, the generation dispatched will  
8 produce net benefits for SWEPCO's customers.

9 SWEPCO units were offered in the SPP IM correctly based on their  
10 incremental energy costs and the dispatch of the units resulted in positive revenues  
11 above those costs. Over the years 2016 through 2020, the revenues from sales of  
12 Welsh 1 & 3 and Flint Creek generation units were \$196 million in excess of the  
13 variable costs of those units. This fact demonstrates that SWEPCO has sought and  
14 will continue to seek opportunities in the SPP IM to produce net energy revenues for  
15 the benefit of customers.

16 Q. HAS THE PUBLIC UTILITY COMMISSION OF TEXAS (PUC OR  
17 COMMISSION) RECENTLY ADDRESSED SWEPCO'S PARTICIPATION IN  
18 THE SPP IM?

19 A. Yes. In SWEPCO's most recent base rate case in Texas, Docket No. 46449, the  
20 Commission found that SWEPCO had correctly bid its solid fueled generating units  
21 into the SPP IM based on the incremental costs of the units, realizing revenues in  
22 excess of the associated incremental costs of dispatch. (Order on Rehearing, Finding

1 of Fact Nos. 345-346.) As discussed above, during the 2016 – 2020<sup>1</sup> period the  
2 Company again has realized SPP IM revenues in excess of the associated incremental  
3 dispatch cost associated with SWEPCO solid fueled generating units. And, consistent  
4 with these findings, the Company continued to offer its generating units into that  
5 market based on the incremental cost of dispatch.

6 B. SWEPCO SOLID FUEL UNITS' NET MARKET REVENUES

7 Q. HOW DO YOU RESPOND TO SIERRA CLUB WITNESS MS. GLICK'S CLAIM  
8 THAT SWEPCO'S WELSH 1 & 3 AND FLINT CREEK HAVE EACH LOST  
9 ROUGHLY \$150 MILLION RELATIVE TO THE MARKET FROM 2015 – 2020?

10 A. The basic premise of her analysis is an apples to oranges comparison that produces a  
11 value that is misleading and inaccurate. Ms. Glick's calculations are not based on the  
12 incremental cost of dispatching SWEPCO's solid fuel units. Instead, Ms. Glick's  
13 calculations incorrectly include costs that are fixed (i.e., costs that do not vary with  
14 the output level of the unit). Fixed costs will be incurred whether or not a unit is  
15 dispatched. Ms. Glick incorrectly includes total O&M costs and capital costs in her  
16 calculations. This fact is further discussed by SWEPCO rebuttal witness Mark  
17 Becker.

18 C. CORRECT NET MARKET REVENUES OF WELSH 1 & 3 AND FLINT CREEK

19 Q. PLEASE DESCRIBE THE RESULTS OF YOUR ANALYSIS OF THE NET  
20 REVENUES OF WELSH 1 & 3 AND FLINT CREEK DURING 2016-2020.

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<sup>1</sup> A full year of 2015 incremental cost of dispatch data is not readily available.



1 A. Welsh 1 & 3 and Flint Creek all earned positive net market revenues during the  
2 period 2016-2020.<sup>2</sup> As shown in the table below, on an annual basis, they earned an  
3 average of \$13.1 million of Net Market Revenues.

Net Market Revenues					
	2016	2017	2018	2019	2020
Welsh 1	\$11,212,087	\$22,903,054	\$25,232,032	\$16,594,435	\$6,683,397
Welsh 3	\$10,292,290	\$15,470,247	\$24,252,418	\$15,650,625	\$5,858,126
Flint Creek	\$5,980,332	\$8,077,518	\$14,510,186	\$9,030,741	\$4,178,975

4 Q. HOW DID YOU CALCULATE THE BENEFITS SHOWN ABOVE?

5 A. Net Market Revenues are calculated by subtracting the variable cost of production  
6 from the market revenues. On a monthly basis for each unit, the variable production  
7 costs (variable fuel, variable Operation and Maintenance, NOX, SOX and chemicals)  
8 were compared against the ancillary and energy revenue received in that month. The  
9 analysis therefore calculated either a net positive or negative market revenue for each  
10 month. The data presented above represent an aggregation of hourly data.

11 IV. CAJUN CAPACITY CHARGES

12 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

13 A. In this section of my testimony, I respond to Mr. Norwood's claim that the Cajun  
14 contract capacity charges should be removed from base rates and should instead be  
15 included in SWEPCO's fuel reconciliation.

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<sup>2</sup> The Net Market Revenue for 2015 was not calculated because the detailed data needed to calculate the incremental cost was not readily available.

1 Q. PLEASE DESCRIBE THE CAJUN CONTRACT CAPACITY PURCHASE?

2 A. As explained in the direct testimony of SWEPCO witness Mertz, which I have  
3 adopted as my own, during the Test Year, SWEPCO continued to purchase 50 MW of  
4 capacity under its long-term purchase power agreement with Louisiana Generating  
5 Company (formerly Cajun Electric Power Cooperative). That agreement began in  
6 1992.

7 Q. HOW HAS SWEPCO HISTORICALLY RECOVERED THOSE COSTS?

8 A. Those costs have historically been recovered through base rates. SWEPCO does not  
9 recover any portion of these capacity costs through its Fuel Factor.

10 Q. WHAT IS THE BASIS FOR MR. NORWOOD'S ARGUMENT THAT THE COSTS  
11 SHOULD NOW BE RECOVERED THROUGH THE FUEL FACTOR?

12 A. Mr. Norwood appears to be confusing the phrase "Operating Reserve Capacity  
13 Charges" in the Cajun contract, which is capacity, with the SPP definition of  
14 "operating reserves," which are considered ancillary services and treated as energy.

15 Q. HIGHLY SENSITIVE EXHIBIT SN-8 TO THE TESTIMONY OF CARD  
16 WITNESS MR. NORWOOD PROVIDES AN EXCERPT OF THE CAJUN  
17 CONTRACT. UNDER SECTION V. OF THE CONTRACT SHOWN IN HIGHLY  
18 SENSITIVE EXHIBIT SN-8, WHAT PRODUCTS ARE AVAILABLE TO  
19 SWEPCO?

20 A. SWEPCO may purchase Operating Reserve Capacity and may purchase Operating  
21 Reserve Energy. During the Test Year, SWEPCO did purchase the product  
22 designated as Operating Reserve Capacity under the contract and counted that  
23 capacity in SWEPCO's compliance with SPP's capacity reserve requirements.

1 During the Test Year SWEPCO did not purchase any Operating Reserve Energy  
2 under the Cajun contract.

3 Q. HOW WOULD SWEPCO HAVE ACCOUNTED FOR OPERATING RESERVE  
4 ENERGY, AS DEFINED IN THE CAJUN CONTRACT, IF SWEPCO HAD  
5 PURCHASED ANY?

6 A. If SWEPCO had purchased any Operating Reserve Energy under the Cajun contract,  
7 SWEPCO would have accounted for such a purchase as an element of fuel costs  
8 under the Commission's rules.

9 Q. IN SECTION VI OF HIS TESTIMONY, MR. NORWOOD OBSERVES THAT THE  
10 COMPANY ADDRESSED THE PURCHASE OF "OPERATING RESERVES" IN  
11 SWEPCO'S MOST RECENT FUEL RECONCILIATION CASE, DOCKET NO.  
12 50997. PLEASE EXPLAIN HOW OPERATING RESERVE SERVICE IS NOW  
13 PROCURED IN THE SPP IM.

14 A. Since the launch of the SPP IM in March of 2014, SPP operating reserve services are  
15 procured in the day-ahead and real-time market. These ancillary services are  
16 economically cleared simultaneously with the energy offers in the SPP IM based on  
17 the bids and offers submitted by Market Participants. SPP operating reserves are  
18 appropriately treated as energy and should be accounted for in the fuel reconciliation.

19 Q. HOW IS CAPACITY, WHETHER PURCHASED FROM CAJUN OR ANOTHER  
20 SOURCE, DISTINGUISHED FROM OPERATING RESERVE SERVICE?

21 A. Unlike the ancillary service operating reserves, capacity has to be purchased several  
22 months ahead of the start of the peak summer season, and in order for a load serving  
23 entity to be able to count on the capacity, firm transmission must be obtained from

1 SPP. The process for obtaining firm transmission service can take over six months.

2 In addition, the terms for purchased capacity must be for a minimum of four months.

3 Q. IS OPERATING RESERVE CAPACITY IN THE CAJUN CONTRACT THE  
4 SAME PRODUCT AS OPERATING RESERVES IN THE SPP IM?

5 A. No, it is not. The operating reserve ancillary service in the SPP IM must be  
6 purchased from the market, not through bilateral contracts. It is a load following  
7 service that must be purchased from the market on a day-ahead and real-time basis.  
8 The operating reserve capacity sold under the Cajun contract is used to help fulfill  
9 SWEPCO's SPP capacity obligation. Contrary to Mr. Norwood's claim, they are two  
10 distinct products.

11 Q. ARE THERE ANY OTHER INDICATIONS IN THE CAJUN CONTRACT THAT  
12 THE OPERATING RESERVE CAPACITY IS A CAPACITY PRODUCT?

13 A. Yes, there is. The contract calls it a "capacity charge" and the cost of the capacity is  
14 priced on a \$/kW month basis. This pricing helps demonstrate that it is a capacity  
15 product and not an energy product. In contrast, the Operating Reserve Energy charge  
16 in the contract is referred to as an "energy charge" and is charged on a per-kWh basis.

17 Q. DOES THE PURCHASE OF CAJUN CAPACITY HAVE ANY IMPACT ON THE  
18 NEED TO BUY OPERATING RESERVE SERVICE FROM THE SPP IM?

19 A. No, it does not. The Cajun capacity purchase does not impact the requirement for  
20 SWEPCO to purchase operating reserve service in the SPP IM. The Cajun capacity is  
21 used in meeting SWEPCO's SPP capacity requirement.

22 Q. HOW SHOULD CAJUN CAPACITY PAYMENTS BE TREATED?

1 A. Mr. Norwood's suggestion that Cajun capacity payments should be treated as  
2 operating reserves should be rejected. Cajun capacity payments are distinct from  
3 operating reserves and should continue to be recovered through base rates, as they  
4 have been historically.

5 Q. DID MR. NORWOOD ARGUE THAT CAJUN CAPACITY CHARGES SHOULD  
6 BE CONSIDERED ENERGY CHARGES IN SWEPCO'S MOST RECENT FUEL  
7 RECONCILIATION, DOCKET NO. 50997?

8 A. No. Mr. Norwood did not raise this specific issue in SWEPCO's most recent fuel  
9 reconciliation. To the contrary, he argued that SPP operating reserves, which the  
10 Commission has held are energy, should instead be treated and recovered as though  
11 they were capacity charges.

12 V. WIND CONTRACTS

13 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

14 A. In this section of my testimony, I respond to TIEC witness LaConte's argument that  
15 an imputed capacity value for SWEPCO's wind contracts should be removed from  
16 SWEPCO's fuel costs and should instead be included in base rates.

17 Q. WHAT IS YOUR RESPONSE?

18 A. I disagree that the Commission should impute a capacity value for purposes of cost  
19 recovery for these energy-only wind contracts.

20 Q. HAVE SWEPCO'S WIND CONTRACTS BEEN ENTERED INTO RECENTLY?

21 A. No, they have not. They have been in place for almost a decade. One came into  
22 operation in 2008, while the remaining contracts came into operation in 2012.

1 Q. HAVE THESE WIND CONTRACTS EVER BEEN ASSIGNED AN IMPUTED  
2 CAPACITY VALUE BY THE COMMISSION?

3 A. No, they have not. The cost of these contracts has been collected through SWEPCO's  
4 fuel reconciliation since their inception. Ms. LaConte's suggestion that the historical  
5 treatment be changed to include an imputed capacity amount in base rates should be  
6 rejected.

7 Q. DO THE WIND CONTRACTS HAVE SEPARATE PAYMENT PROVISIONS  
8 FOR ENERGY AND CAPACITY?

9 A, No, they do not. All of the payments in the contracts are for renewable energy.  
10 There are no separate provisions for the payment of any kind of capacity charge.

11 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

12 A. Yes, it does.